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December 19, 2008

Ms. Kimberly Battista  
Compliance Section, Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

Arizona Corporation Commission

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Re:

AT&T and BellSouth Merger- Consumer Benefits Report

Decision No. 68865, Docket No. T-02428A-06-0203, T-03346A-06-0203,  
T-03287A-06-0203, T-03116A-06-0203,  
T-03016A-06-0203

Dear Ms. Battista:

On behalf of the certificated local and interexchange carriers doing business in Arizona that are subsidiaries of AT&T Inc. (collectively referred to as "AT&T"), the purpose of this letter is to provide the Consumer Benefits Report as required by the Opinion and Orders of this Commission that approved the merger of AT&T Corporation and SBC Communications Inc.,<sup>1</sup> and the merger of AT&T Corporation and BellSouth Corporation.<sup>2</sup>

### Consumer Benefits Report Requirement

In its *AT&T / SBC AZ Merger Order*, the Commission required that an annual report be filed with the Compliance Section on or before December 31, 2006 and, thereafter for four years following the merger:

<sup>1</sup> *In the Matter of the Joint Notice of Intent by SBC Communications Inc. and AT&T Corporation*, Decision No. 68269, Docket Nos. T-03346A-05-0149, et al ("AT&T / SBC AZ Merger Order").

<sup>2</sup> *In the Matter of the Notice of Intent by AT&T, Inc.. Pursuant to A.A.C. R14-2-803 or, Alternatively, for a Limited Waiver of the Commission's Affiliated Interest Rules*, Decision No. 68865, Docket Nos. T-02428A-06-0203, et al. ("AT&T/BellSouth Merger Order").

... detailing any cost savings that have resulted from the Merger and have been passed on to consumers; the Company's efforts to provide stand-alone DSL to the consumers of Arizona; how AT&T Labs has benefited Arizona consumers; the Company's efforts to expand its VOIP offering to Arizona consumers; and any rate reductions or increases that have been implemented by the Company.<sup>3</sup>

In its *AT&T / BellSouth AZ Merger Order*, consistent with Decision No. 68269, the Commission required that the annual report was due no later than December 31, 2006, and thereafter annually for a period of four years:

...that the newly merged company shall include the effects of the BellSouth merger in the Consumer Benefits Report required by Decision No. 68269.<sup>4</sup>

This report provides the required information to the extent that requested information is available.

### **Cost Savings and Other Benefits Passed on to Arizona Consumers**

As a result of the SBC/AT&T and the AT&T/BellSouth mergers, and the consolidated ownership of Cingular Wireless, the combined entity is overall a stronger competitor with greater financial, technical, research and development resources, as well as network and marketing resources to better serve Arizona consumer and business customers.

The mergers have resulted in accelerated network infrastructure improvements necessary to offer high quality and competitively priced telecommunications services to consumers in Arizona and worldwide. During 2008, AT&T completed the transition of its Internet Protocol ("IP") traffic to a next-generation consolidated IP/MPLS backbone network, which dramatically expands the capacity of the network to meet the growing demand for IP connectivity from consumers and businesses. The new full-mesh optical platform includes the world's largest deployment to date of 40 gigabit-per-second (GBPS) transport, the fastest technology available. AT&T's entire U.S. ultra-long haul network now uses this 40-gigabit network technology, known as OC-768. The AT&T IP/Multiprotocol Label Switching ("MPLS") backbone network serves as the foundation for all AT&T Internet and IP services, carrying traffic ranging from consumer broadband to wireless data to business applications. The new network platform minimizes latency and enhances transport efficiency and reliability for all types of traffic, resulting in a direct benefit for customers of AT&T's Virtual Private Network and private line services. The backbone is designed for maximum resiliency in the event of a natural or man-made

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<sup>3</sup> *AT&T / SBC AZ Merger Order* at pp. 16-17.

<sup>4</sup> *AT&T/BellSouth AZ Merger Order* at pp. 11.

disruption, providing the ability to continue transport even if any single network link or node is disrupted.

The integrated network results in a more robust network that is better able to withstand, respond to and recover from disasters, acts of terrorism and other emergencies.<sup>5</sup> Disaster recovery and network protection is a focus for AT&T and an area in which AT&T has invested millions of dollars to keep its global IP network secure. In February 2008, AT&T held a Network Disaster Recovery (“NDR”) exercise in Mesa, Arizona which offered government and local officials and the business community an in-depth view of AT&T’s ability to respond in the event of a disaster. In conjunction with the NDR, AT&T held a business continuity and network security planning seminar with industry experts sharing the recent innovations in network security and ways to assess a company’s or agency’s network readiness.

AT&T has realized significant efficiencies resulting from the mergers; however, savings directly related to a specific state are not quantifiable. AT&T, therefore, cannot identify any specific cost savings that resulted in Arizona which were passed on to Arizona residents in the form of reduced rates for regulated services. However, the integration of the networks resulted in better route performance, better network management tools and a richer feature set for managed service products for Arizona customers. AT&T is thus better able to deliver innovative products and services to consumers, streamlined customer care and greater convenience in buying communications and entertainment services.

During 2008, AT&T continued its ongoing commitment to provide our customers with the best wireless experience, including superior network coverage and network speed, with the activation of fifty additional new cell sites throughout Arizona.<sup>6</sup> Over the past three years, AT&T has deployed more than 240 new cell sites in Arizona, an increase in wireless coverage of more than 60 percent. AT&T also delivered dramatic advancements in Arizona through the introduction of a third generation (3G) wireless broadband network, which was expanded to Flagstaff customers in 2008.<sup>7</sup> The 3G mobile network makes it possible for customers to quickly access feature-rich wireless content, including videos, games, pictures and the latest entertainment, news and weather on their 3G handsets. In addition to the network upgrades, AT&T temporarily increased its capacity to prepare for the unprecedented levels of data usage as record crowds attended the events associated with the Super Bowl and FBR Open. AT&T ensured that

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<sup>5</sup> In Stat, a leading provider of actionable research, market analysis and forecasts of advanced communications services with headquarters in Arizona, recognized AT&T as a leader in the areas of network security, financial stability and brand familiarity for small to midsized business customers. The In Stat survey found that AT&T excelled in the area of network security.

<sup>6</sup> On April 14, 2008, AT&T announced the activation of a new cell site in northwest Tucson which increased coverage and capacity to areas including southeast Ruthruff, La Cholla, southwest Camino Del Cerro and the southern parts of Orange Grove.

<sup>7</sup> Arizona consumers now have access to AT&T’s most advanced 3G wireless network in ten major cities which include: Chandler, Flagstaff, Gilbert, Glendale, Mesa, Peoria, Phoenix, Scottsdale, Tempe and Tucson.

its network capacity would handle the significant spike in traffic that occurred by doubling its network capacity around the University of Phoenix Stadium, at TPC Scottsdale and the Scottsdale Convention center with the use of temporary Cell on Wheels (“COWs”) cell sites.

With a focus on enhancing customer service, AT&T also opened new wireless retail stores in Tucson and Phoenix which offer an interactive retail experience for customers with interactive demonstrations of AT&T’s extensive portfolio of wireless products and services, including the latest 16 GB iPhone and smartphones that include video calling, multimedia messaging and GPS. This technology saves customers taking paper leaflets to study specifications and compare devices by allowing them to experience the actual phone. The stores include interactive touch-screen information stations that make it easy for customers to view rate plans, coverage maps and browse devices, accessories and sample ringtones. The stores also include interactive stations equipped with laptops and wireless devices so that customers can test applications, including e-mail, messaging and video.

AT&T demonstrated its commitment to Arizona communities through its philanthropic support of several community events and organizations. AT&T appointed a president, located in Arizona to provide better linkages to businesses and the community. AT&T was a sponsor of the annual Miracle Marathon fundraiser in September for the Phoenix Children’s Hospital. AT&T Mobility retail stores ran a promotional offer in which Arizona customers received the benefit of a waived activation fee for new service, while AT&T contributed the proceeds to the hospital. Additionally, AT&T awarded Arizona State University (“ASU”), a \$25,000 environmental research grant and designated two faculty members as AT&T Faculty Fellows in Industrial Ecology. The grant will support their research programs and will demonstrate how the use of information technology can benefit the environment, society and the economy. AT&T also made an investment which supported ASU, becoming the exclusive wireless partner of ASU Athletics. Throughout the season AT&T featured special ASU athletic-themed promotions on products and services for fans and offered free ticket giveaways for fans and students.

AT&T kicked off a multimillion dollar, multi-year national initiative in conjunction with Junior Achievement in an effort to encourage high school students to stay in school and increase their competitiveness. Local Arizona Junior Achievement offices worked closely with AT&T to set up job shadow opportunities between students and AT&T employees. In addition, AT&T provided a four-year foundation grant totaling \$294, 636 to the Tempe Union High School District to support their Summer Bridge program which targets at-risk students that have been promoted from middle school to high school with deficiencies in their math, reading and writing skills which would impact their ability to complete high school successfully.

### **Provision of DSL Service on a Stand-Alone Basis**

AT&T is not a facilities-based, incumbent local exchange carrier in Arizona. In order to provide DSL service, the carrier must provide the service using DSL over a landline based distribution network which AT&T does not have. Thus, AT&T does not offer DSL service to Arizona customers. However, AT&T currently provides Wi-Fi, a wire-free way for customers to connect to the Internet, at 494 locations throughout Arizona. AT&T partnered with Arizona businesses including Starbucks, McDonalds and Barnes and Noble to create “hot spots” in which a customer’s Wi-Fi enabled device can connect to the Internet. A complete listing of the AT&T Wi-Fi locations is available at [www.attwifi.com](http://www.attwifi.com).

### **AT&T Labs**

A crucial merger benefit that is driven by AT&T Labs is the increased level of research, development and innovation that will mature into new products and services for all customers. The efforts of AT&T Labs have resulted in the creation of new products and services as well as providing the tools and systems to manage secure and reliable networks. AT&T Labs has been at the forefront of the technological revolution and has brought new innovations to AT&T customers, such as AT&T’s Digital Media Solutions, a suite of content delivery and digital media solutions, announced in 2008. This portfolio of services helps companies package, deliver and distribute video and rich multimedia Web content across their networks to the computer, the television and mobile computing devices such as the iPhone and the Blackberry. It can be used by businesses with multiple small office locations or the most sophisticated multinational company. These content delivery services are built into AT&T’s core network so that they are protected by security in every layer from network transport through end-user application, enabling AT&T to predicatively and proactively detect and repel malicious activity.

AT&T Labs plays a key role in developing future technologies for emerging 100 gigabit transmission capabilities which will be required to handle the growing demand for Internet capacity and applications. The new AT&T IP backbone network is designed to provide a streamlined path for adopting these future technologies as they are developed, in addition to the immediate capacity and performance benefits for Arizona customers.

### **Expansion of VOIP Offerings**

During 2008, AT&T expanded its VoIP offerings with the introduction of “AT&T Business in a Box”, a new service offering that brings the benefits of big-business innovation to small and medium businesses and branch offices of large businesses. The innovative service converges voice, Internet and data communications over a single network connection and device. AT&T Business in a Box enables customers to migrate from traditional analog to Voice over IP (VoIP), reducing operating expenses by integrating voice and data services. It provides Virtual Private Network capabilities, Wi-Fi data access capabilities and local area network connectivity capabilities traditionally reserved for larger enterprises.<sup>8</sup>

### **Post-Merger Rate Reductions and Increases**

Since merger close, AT&T has implemented intrastate tariff changes for Arizona residential and business consumers resulting in both rate increases and rate decreases, depending on the service offering. Attached as Exhibit 1 is an Excel spreadsheet detailing those changes.

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<sup>8</sup> Take Care Health Systems, one of the largest managers of convenient care clinics and wholly owned subsidiary of Walgreens signed a comprehensive network, data and voice services agreement for the AT&T Business in a Box solution to be used in a portion of their Take Care Clinics located in select Walgreens drugstores.

### Conclusion

In summary, the merger has provided benefits to consumers in Arizona and throughout the world and made the new AT&T a strong competitor in an increasingly competitive marketplace. If you need any additional information, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script, reading "Sharon Mullin".

cc (delivered): Commissioner Mike Gleason, Chairman  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin K. Mayes  
Commissioner William A. Mundell  
Commissioner Gary Pierce  
Ernest Johnson, Director, Utilities Division

# AT&T and TCG 2008 Arizona Tariff Filings

Advice Number	Docket Number	Service	Rate Reduction	Rate Increase	Tariff Changes	TFN	Tariff Effective Date
Advice No. T-08-01	T-03016A-08-0016	The purpose of this filing is to reduce the Arizona Universal Service Fund surcharge.	X			AZ08002	1/8/08
Advice No. 602	T-02428A-08-0057	The purpose of this filing is to increase the monthly recurring charge for the following local services: Call Plan Deluxe, Call Plan Unlimited Plus, One Rate® USA Plan, One Rate® Advantage Plan, Call Plan Unlimited with 3 Feature Package Enhanced, Call P		X		AZ08004	2/1/08
Advice No. 603	T-02428A-08-0090	This filing renames AT&T Megacom 800 service and AT&T 800 Readyline service to Toll-Free Megacom Service and Toll-Free Readyline Service, respectively.			X	AZ08005	3/15/08
Advice No. 604	T-02428A-08-0089	This filing includes name changes for selected Private Line Services in Tariff 9 and Tariff 11.			X	AZ08007	3/15/08
Advice No. 605	T-02428A-08-0119	This filing reduces the prices for various dial 1 Optional Calling Plans.	X			AZ08006	3/1/08
Advice No. 606	T-02428A-08-0110	This filing reinstates two grandfathered ABN features: original called number & alternate enhanced redirect solutions.			X	AZ08008	3/28/08
Advice No. 607	T-02428A-08-0120	This filing increases the rates for AT&T All-In-One Local Rate.		X		AZ08003	3/1/08
Advice No. 608	T-02428A-08-0121	This filing increases the rates for AT&T All-In-One LD.		X		AZ08001	3/1/08
Advice No. 609	T-02428A-08-0279	This filing increases selected local line and feature rates for All In One business service.		X		AZ08009	6/1/08
Advice No. 610	T-02428A-08-0280	This filing increases the consumer rates for selected Dial 1 plans, Directory Assistance, and CallATT Collect. The filing also removes some card options from plans and their associated rates.		X		AZ08010	6/1/08
Advice No. 611	T-02428A-08-0281	This filing updates tariff language relative to the AT&T IntraLATA Overlay Plan and the AT&T IntraLATA Overlay Plan II.			X	AZ08014	6/29/08

Advice No. 612	T-02428A-08-0282	This filing introduces the ABN Loyalty Pricing Plan in AZ. Also the filing grandfatherers existing ABC LD rating methodology and applicable rate schedules.			X	AZ08016	7/1/08
Advice No. T-08-01	T-03016A-08-0294	This filing is a clean up of the TCG voice tariff consisting of minor text changes and eliminating numerous outdated temporary promotions.			X	AZ08014b	7/7/08
Advice No. T-08-02	T-03016A-08-0306	This filing is a clean up of the TCG Access Tariff which grandfatherers all services in Section 3 (Dedicated Access Services).			X	AZ08013	7/18/08
Advice No. 613	T-02428A-07-0067	This is a compliance filing to introduce the new tariff pages related to the AZ In State Connection Fee which was approved by the Commission on 4/8/08 but could not go into effect until after customer notice was completed.			X	AZ08011	7/1/08
Advice No. 614	T-02428A-08-0315	This filing increases some rates for Frame Relay and ATM regional access port charges in the Private Line Services Tariff.		X		AZ08012	7/20/08
	T-02428A-08-0412	The purpose of this filing is to grandfather the consumer "AT&T Additional Feature Add-On Package."			X	AZ08019	9/1/08
Advice No. 616	T-02428A-08-0460	The purpose of this filing is to increase month recurring charges for All In One Plan A and All In One Plan B business lines.		X		AZ08017	9/2/08
Advice No. 617	T-02428A-08-0462	The purpose of this filing is to increase rates for All In One long distance.		X		AZ08018	9/2/08
Advice No. T-08-03	T-03016A-08-0461	The purpose of this filing is to add clarifying text relative to Toll Free 8YY Transit Traffic service.			X	AZ08021	10/1/08
Advice No. T-08-04	T-03016A-97-0463	Introduces a promotion to waive non-recurring charges when AERS is purchased from September 19, 2008 through December 31, 2008.			X	AZ08022	9/19/08
Advice No. 618	T-02428A-96-0119	ABN Incoming Call Redirect Non-Recurring Charge (NRC) Waiver Promotion.			X	AZ08024	9/19/08

Advice No. 619	T-02428A-08-0483	The purpose of this filing is to grandfather OneNet options and ACC Business associated with AT&T Local Exchange Service.			X	AZ08023	10/22/08
Advice No. 620	T-02428A-96-0119	This filing cancels ABN Incoming Call Redirect Non-Recurring Charge (NRC) Waiver Promotion.			X	AZ08024R	9/25/08
Advice No. 621	T-02428A-08-0537	This filing Removes AT&T 30 for 3 Free IntraLATA Minutes Plan (obsolete); Renames the AT&T international Plan with 12 to AT&T International Plan with Domestic Rate; Removes AT&T College ePlan (obsolete); and Inserts AT&T Worldnet/Long Distance Plan (CPMXS)			X	AZ08028	11/15/08
Advice No. 622	T-02428A-08-0550	The purpose of this filing is to revise billing and collections language.			X	AZ08025	11/24/08
Advice No. T-08-05	T-03016A-08-0552	The purpose of this filing is to revise billing and collections language.			X	AZ08026	11/24/08
Advice No. 623	T-02428A-96-0119	The purpose of this filing is to introduce the ABN Incoming Call Redirect Non-Recurring Charge (NRC) Waiver Promotion.			X	AZ08027	11/3/08
Advice No. 624	T-02428A-08-0554	The purpose of this filing is to increase rates for AT&T Simplified Plan and AT&T OneRate Off-Peak Plan. It also reduces rates for Directory Link Service.	X	X		AZ08020	11/1/08
Advice No. 625	T-02428A-08-0551	This filing introduces Intrastate Inbound 1-800-YellowPages Service.			X	AZ08029	11/24/08

SBC Long Distance, LLC - 2008 ARIZONA						
File Date	Advice Number	Docket Number	Service	Rate Reduction	Rate Increase	Tariff Changes
January 15, 2008	Advice No. 276	T-03346A-08-0031	Effective February 18, 2008, SBCLD modified its end rate default language.			x
January 22, 2008	Advice No. 277	T-03346A-08-0040	Effective February 18, 2008, SBCLD deleted grandfathered plans with no customers and increased the MRC on the Block of Time 500.		X	
April 23, 2008	Advice No. 278	T-03346A-08-0211	Effective June 1, 2008, SBCLD grandfathered AT&T Business LD Aggregation Preferred, introduced AT&T LD Aggregation Preferred II, increases AT&T Business Calling \$5.95, and made miscellaneous text changes.		X	X
April 30, 2008	Advice No. 279	T-03346A-08-0224	Effective June 1, 2008, SBCLD increased Frame Relay port charges.		X	
May 19, 2008	Advice No. 278	T-03346A-08-0253 (amended)	Effective June 1, 2008, SBCLD corrected previously filed tariff pages.		X	X
June 2, 2008	Advice No. 280	T-03346A-08-0284	Effective July 12, 2008, SBCLD changed its consumer MTS rates.	X	X	
July 7, 2008	Advice No. 281	T-03346A-08-0343	Effective August 12, 2008, SBCLD changed multiple rates and introduced out of term rates for two existing calling plans.		X	
August 15, 2008	Advice No. 282	T-03346A-08-0431	Effective September 22, 2008, SBCLD grandfathered its JustCall <sup>SM</sup> Global plan.			X
October 6, 2008	Advice No. 283	T-03346A-08-0514	Effective November 14, 2008, SBCLD grandfathered its AT&T One Rate Nationwide 10 Cents plan.			X
November 12, 2008	Advice No. 284	T-03346A-08-0575	Effective December 26, 2008, SBCLD increased the out of term rate percentage for private line service.		X	
November 21, 2008	Advice No. 285	T-03346A-08-0581	Effective January 12, 2009, SBCLD introduced a MRC to AT&T Business Calling.		X	